

SEC



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MISSION

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8-36638

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 10/01/14 AND ENDING 9/30/15

MM/DD/YY

MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Sterne Agee Financial Services, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

800 Shades Creek Parkway, Suite 700

(No. and Street)

Birmingham

AL

35209

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Fred Wagstaff

(205) 380-1716

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Warren Averett, LLC

(Name - if individual, state last, first, middle name)

2500 Acton Road

Birmingham

AL

35243

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

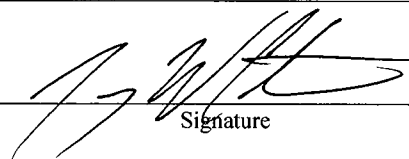
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

### OATH OR AFFIRMATION

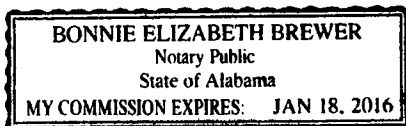
We, Jay W. Carter and C. Fred Wagstaff, III, swear (or affirm) that, to the best of our knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Sterne Agee Financial Services, Inc., as of September 30, 2015, are true and correct. We further swear (or affirm) that neither the Company nor any partner, proprietor, principal officer, or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
\_\_\_\_\_  
Signature

CEO, Sterne Agee Financial Services, Inc.

\_\_\_\_\_  
Title



  
\_\_\_\_\_  
Signature

Treasurer and CFO, Sterne Agee Financial Services, Inc.

\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Notary Public

This report \*\*contains (check all applicable boxes):

- X (a) Facing page.
- X (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- X (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

*\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3)*



**STERNE AGEE FINANCIAL SERVICES, INC.**

(A Wholly-Owned Subsidiary of Sterne Agee, LLC, a Stifel Financial Corp. Company)

Statement of Financial Condition

September 30, 2015

(With Report of Independent Registered Public Accounting Firm Thereon)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
Sterne Agee Financial Services, Inc.

We have audited the accompanying consolidated statement of financial condition of Sterne Agee Financial Services, Inc. (a Delaware corporation) as of September 30, 2015, and the related notes to the consolidated financial statement. The consolidated financial statement is the responsibility of Sterne Agee Financial Services, Inc.'s management. Our responsibility is to express an opinion on this consolidated statement of financial condition based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated statement of financial position. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated statement of financial position presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of Sterne Agee Financial Services, Inc. as of September 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

*Warren Averett, LLC*

Birmingham, Alabama  
November 23, 2015

**STERNE AGEE FINANCIAL SERVICES, INC.**  
(A Wholly-Owned Subsidiary of Sterne Agee, LLC, a Stifel Financial Corp. Company)

Consolidated Statement of Financial Condition

September 30, 2015

**Assets**

Cash and cash equivalents	\$ 4,502,441
Furniture and equipment (less accumulated depreciation of \$352,712)	258,396
Goodwill and other intangible assets, net	12,172,369
Notes receivable from financial advisors, net	3,039,492
Other assets	<u>3,233,544</u>
Total assets	<u>\$ 23,206,242</u>

**Liabilities and Stockholder's Equity**

Due to Parent	\$ 47,707
Due to affiliates, net	332,358
Payable to financial advisors	2,252,858
Other liabilities	<u>601,623</u>
Total liabilities	<u>3,234,546</u>

Stockholder's equity:

Common stock, \$0.001 par value. 2,500 shares authorized, issued, and outstanding	2
Additional paid-in capital	16,783,998
Retained earnings	<u>3,187,696</u>
Total stockholder's equity	<u>19,971,696</u>
Total liabilities and stockholder's equity	<u>\$ 23,206,242</u>

See accompanying notes to consolidated statement of financial condition.

**STERNE AGEE FINANCIAL SERVICES, INC.**  
**(A Wholly-Owned Subsidiary of Sterne Agee, LLC, a Stifel Financial Corp. Company)**

**Notes to Consolidated Statement of Financial Condition**

**September 30, 2015**

**(1) Organization and Summary of Significant Accounting Policies**

**(a) *Description of Business and Principles of Consolidation***

Sterne Agee Financial Services, Inc. (the Company), is a wholly owned subsidiary of Sterne Agee, LLC (the Parent) (formerly Sterne Agee Group, Inc.). Sterne Agee Group, Inc. was acquired by Stifel Financial Corp. on June 5, 2015 and the Parent's name was subsequently changed to Sterne Agee, LLC. The Company consists of two registered broker/dealers, Sterne Agee Financial Services, Inc. and WRP Investments, Inc. (WRP), which are both registered broker/dealers with the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). The Company's principal business activities include the execution of securities transactions for institutional and retail customers, as well as sales of insurance products to retail customers. Institutional and retail customers are introduced to the Company through a network of financial advisors and third-party marketing agreements with various banks. All securities transactions are settled through an affiliated clearing broker on a fully disclosed basis.

The Company contracts with Sterne, Agee & Leach, Inc. (SALI), an affiliate, to serve as the clearing and carrying broker, to clear and perform the majority of other back office operations, and to maintain and preserve all books and records required by applicable provisions of law and applicable rules of the SEC. Under the terms of the Company's agreement, the Company has ultimate responsibility for any loss, liability, damage, cost, or expense incurred as a result of the failure of any account to make timely payment for the securities purchased or timely and good delivery of securities sold on the account, although management expects no significant losses under this agreement.

**(b) *Use of Estimates in Statement of Financial Condition***

The accounting principles used in preparing the statement of financial condition conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and with general practices followed by broker/dealers in the securities industry. These principles and practices require management to make estimates and assumptions about future events. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to fair value measurements, intangibles, income taxes, and contingent liabilities. These estimates and assumptions are based on management's best estimates and judgments. Management adjusts such estimates and assumptions when facts and circumstances dictate. The Company bases its estimates on historical experience and the current economic environment and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities not readily apparent from other sources. Fair value measurements and contingent liabilities are potentially subject to material changes in the near term. Actual results could differ significantly from those estimates.

**(c) *Cash and Cash Equivalents***

Cash and cash equivalents include short-term highly liquid investments with original maturities of three months or less.

**STERNE AGEE FINANCIAL SERVICES, INC.**  
**(A Wholly-Owned Subsidiary of Sterne Agee, LLC, a Stifel Financial Corp. Company)**

**Notes to Consolidated Statement of Financial Condition**

**September 30, 2015**

**(d) *Accounting for Securities Transactions and Other Activity***

Receivables/payables with broker/dealers, if any, are recorded on a settlement-date basis, which does not differ materially from a trade-date basis.

**(e) *Goodwill and Other Intangible Assets***

Intangible assets, including goodwill and identifiable intangible assets represent the excess of consideration paid over the fair value of tangible assets acquired less the assumption of liabilities. The Company has recorded customer lists and customer relationships acquired as an identifiable intangible asset, valued at \$5,701,952 net of accumulated amortization of \$1,088,527. The Company is amortizing customer lists and customer relationships using the straight-line method over their estimated useful lives of five and ten years, respectively. Intangible assets at September 30, 2015 include \$46,250 representing an indefinite life unamortizable intangible asset, which is the amount paid for a brokerage license, which was contributed to the Company as part of its original capitalization. Goodwill of \$6,424,167 is recorded as of September 30, 2015.

The Company has reviewed the unamortizable intangible asset and goodwill for impairment and has determined no impairment existed as of and for the year ended September 30, 2015.

**(f) *Furniture and Equipment***

Furniture and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets.

**(g) *Notes Receivable from Financial Advisors, Net***

Notes receivable from financial advisors, net represent advances to financial advisors which are charged to expense as the loan advances are forgiven pursuant to the contractual agreements with the financial advisors. Additionally, the Company has recorded an allowance for notes receivable from financial advisors in the amount of \$405,027 as of September 30, 2015 based on an estimate for uncollectible amounts.

**(h) *Other Assets***

Other assets consist primarily of deferred income taxes, prepaid assets, and other receivables.

**(i) *Subsequent Events***

The Company has evaluated subsequent events and their potential effects on this statement of financial condition through the date the statement was issued. The Company does not believe there are any material subsequent events that would require further recognition or disclosure to the September 30, 2015 consolidated statement of financial condition.

**(j) *Recent Accounting Pronouncements***

**Accounting Changes Issued Not Currently Effective**

In July 2013, the Financial Accounting Standards Board (FASB) issued final guidance on the presentation of certain unrecognized tax benefits in the financial statements. This guidance requires

**STERNE AGEE FINANCIAL SERVICES, INC.**  
**(A Wholly-Owned Subsidiary of Sterne Agee, LLC, a Stifel Financial Corp. Company)**

**Notes to Consolidated Statement of Financial Condition**

**September 30, 2015**

unrecognized tax benefits to be presented as a decrease in a deferred tax asset for a net operating loss carry forward, similar tax loss or tax credit carry forward if certain criteria are met. In situations in which a net operating loss carry forward, a similar tax loss or tax credit carry forward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with deferred tax assets. This guidance is effective for the Company for fiscal year 2016. The adoption is not expected to materially affect the Company's financial condition.

In August 2014, the FASB issued new accounting guidance that requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern. The guidance is intended to incorporate into U.S. GAAP a requirement that management perform a going concern evaluation similar to the auditor's evaluation required by standards issued by the Public Company Accounting Oversight Board (PCAOB) and American Institute of Certified Public Accountants (AICPA). The guidance is effective for the Company in fiscal year 2017. Early application is permitted. The adoption is not expected to materially affect the Company's financial condition.

In May 2014, the FASB and the International Accounting Standards Board (IASB) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards (IFRS). The standard's core principle is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance may be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initial application recognized at the date of initial application. In August 2015, the FASB issued deferral guidance that defers the effective date of the accounting guidance, for public business entities, certain not-for-profit entities, and certain employee benefit plans, by one year, to years beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is in the process of reviewing the potential impact the adoption of this guidance will have on its financial position.

In September 2015, the FASB issued guidance which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The guidance is effective for annual reporting periods beginning after December 15, 2015. The adoption is not expected to materially affect the Company's financial condition.

**(2) Regulatory Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and which requires a ratio of aggregate indebtedness, as defined, of not more than 15 times net capital, as defined. At September 30, 2015, the Company had net capital of \$2,128,133, which was \$1,913,678 in excess of required net capital.

The Company claims an exemption from the provisions of the SEC's Customer Protection – Reserves and Custody of Securities Rule (Rule 15c3-3) pursuant to Section (k)(2)(ii) of the Rule.



**STERNE AGEE FINANCIAL SERVICES, INC.**  
**(A Wholly-Owned Subsidiary of Sterne Agee, LLC, a Stifel Financial Corp. Company)**

**Notes to Consolidated Statement of Financial Condition**

**September 30, 2015**

**(3) Commitments and Contingencies**

The Company, in its capacity as a broker/dealer and underwriter, is subject to litigation and various claims in the ordinary course of business, as well as regular examination by regulatory agencies. Management does not expect that resolution of any litigation or regulatory matters will have a material impact on the Company's consolidated financial position.

**(4) Related-Party Transactions**

SALI and the Parent provide management, consulting, and financial services to the Company. Such services include, but are not necessarily limited to, advice and assistance concerning any and all aspects of the operation, planning, and financing of the Company.

SALI and the Parent provide office space, communications, and clearing services to the Company in the normal course of operations.

Cash and cash equivalents are held in accounts with SALI. SALI serves as the custodian for the Company for securities, cash, and other property owned by or in the fiduciary accounts.

**(5) Income Taxes**

During its fiscal year, on June 5, 2015 the Company was acquired by Stifel Financial Corp. The Company is included in the consolidated federal income tax return filed by the Parent through June 5, 2015 and in the consolidated federal income tax return filed by Stifel Financial Corp after June 5, 2015. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent and Stifel Financial Corp. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws, and rates.

Deferred tax assets and liabilities are determined under the asset-liability method based on the differing bases of assets and liabilities for financial reporting and income tax reporting purposes using enacted tax rates in effect for the applicable tax periods. The net deferred tax asset is recorded in Other Assets in the statement of financial condition; accordingly the Company has recorded the following:

	<b>September 30, 2015</b>
Bad debt reserves	\$ 155,101
Depreciation and amortization	95,334
Accrued bonus	121,552
Other reserves	57,441
Other	21,261
Total	<u>\$ 450,689</u>

**STERNE AGEE FINANCIAL SERVICES, INC.**  
**(A Wholly-Owned Subsidiary of Sterne Agee, LLC, a Stifel Financial Corp. Company)**

**Notes to Consolidated Statement of Financial Condition**

**September 30, 2015**

Management has concluded that the realization of deferred tax assets is more likely than not; accordingly, there were no valuation allowances at September 30, 2015 and there was no change in the valuation allowance for the year ended September 30, 2015.

At September 30, 2015, the Company had state net operating losses of approximately \$(642,565). The majority of state operating loss carryforwards expire beginning September 30, 2019.

ASC 740 defines the threshold for recognizing the benefits of tax return positions in the financial statements as “more-likely than-not” to be sustained by the taxing authority. This section also provides guidance on the derecognition, measurement, and classification of income tax uncertainties in interim periods. As of September 30, 2015, the Company had no unrecognized tax benefits related to federal or state income tax matters. With few exceptions, the Company’s tax returns for tax years prior to 2010 are no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities. The Parent has filed tax returns through fiscal year ended September 30, 2014.

## **Sterne Agee Financial Services, Inc. Exemption Report**

**November 23, 2015**

Pursuant to Securities Exchange Act Rule 17a-5, "Reports to be made by certain brokers and dealers", Sterne Agee Financial Services, Inc. ("the Firm"), states that to the best of its knowledge and belief:

- (1) The Firm has identified the following provision of 17 C.F.R. 240.15c3-3(k) under which it has claimed an exemption from 17 C.F.R. 15c3-3: 15c3-3(k)(2)(ii), "the exemption provision"; and
- (2) The Firm has met the identified exemption provision from October 1, 2014 – September 30, 2015, with the following exceptions:

None

Signature



Name: C. Fred Wagstaff, III

Title: Chief Financial Officer



2500 Acton Road  
Birmingham, AL 35243  
205.979.4100  
warrenaverett.com

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
of Sterne Agee Financial Services, Inc.

We have reviewed management's statements, included in the accompanying Sterne Agee Financial Services, Inc. Exemption Report, in which (1) Sterne Agee Financial Services, Inc. identified the following provisions of 17 C.F.R. §15c3-3(k) under which Sterne Agee Financial Services, Inc. claimed an exemption from 17 C.F.R. §240.15c3-3: (2)(ii) (the "exemption provisions") and (2) Sterne Agee Financial Services, Inc. stated that Sterne Agee Financial Services, Inc. met the identified exemption provisions throughout the most recent fiscal year without exception. Sterne Agee Financial Services, Inc.'s management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Sterne Agee Financial Services, Inc.'s compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*Warren Averett, LLC*

Birmingham, Alabama  
November 23, 2015

**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES**  
*Related to the Securities Investor Protection Corporation  
Assessment Reconciliation*

To the Board of Directors  
Sterne Agee Financial Services, Inc.  
800 Shades Creek Parkway, Suite 700  
Birmingham, AL 35209

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [General Assessment Reconciliation (Form SIPC-7)] to the Securities Investor Protection Corporation (SIPC) for the year ended September 30, 2015, which were agreed to by Sterne Agee Financial Services, Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating Sterne Agee Financial Services, Inc.'s compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Sterne Agee Financial Services, Inc.'s management is responsible for the Sterne Agee Financial Services, Inc.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries [*We agreed the September 30, 2015 Form SIPC-7 remitted payment of \$19,818 to check #263270 and traced this payment as recorded to the S.I.P.C. insurance expense account 69030 in the general ledger system of Sterne Agee Financial Services, Inc. on November 20, 2015. We also agreed the Form SIPC-6 remitted payment of \$3,039 to check #259399 and traced this payment as recorded to the S.I.P.C. insurance expense account 69030 in the general ledger system of Sterne Agee Financial Services, Inc. on November 18, 2015*] noting no differences;

2. Compared the amounts reported on the audited Form X-17A-5 for the year ended September 30, 2015 (for Statement of Income (Loss) amounts that are presented on a quarterly basis in the Form X-17A-5, we aggregated the amounts for the periods presented for the period October 1, 2014 through December 31, 2014; January 1, 2015 through March 31, 2015; April 1, 2015 through June 30, 2015; and July 1, 2015 through September 30, 2015), as applicable, with the amounts reported in Form SIPC-7 for the year ended September 30, 2015, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers [*We agreed all adjustments to the trial balance noting clerical accuracy and recalculated the fee paid to the Securities Investor Protection Corporation*] supporting the adjustments noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed noting no differences

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*Warren Averett, LLC*

November 23, 2015